

DIVISION OF INTERNAL AUDITS ADMINISTRATIVE DESK MANUAL SECTION I

INTERNAL AUDIT CHARTER

INTRODUCTION

At the request of the Governor, the 1999 Legislature created the Division of Internal Audits (Division) under the Department of Administration. The Legislature also established the Executive Branch Audit Committee (Committee). The Committee is chaired by the Governor and includes the Lieutenant Governor, Secretary of State, State Treasurer, State Controller, Attorney General, and a representative of the general public.

MISSION

The mission of the Division is to provide innovative and useful recommendations to improve the efficiency and effectiveness of state agencies. The Division also provides useful recommendations to assist agencies in maintaining adequate internal accounting and administrative controls. The Division reports on any possible abuses, illegal actions, errors, omissions and conflicts of interest of which the Division becomes aware of during the performance of an audit.

AUTHORITY

Authority for the Division is noted in Nevada Revised Statute 353A. The Division is authorized to direct a broad, comprehensive program of internal auditing within executive branch agencies including the elected officials.

In accomplishing these activities, the Administrator of the Division and members of the audit staff are authorized to have full, free and unrestricted access to all agency functions, records, property, and personnel, except for reports and examinations of financial institutions which NRS 668.085 and NRS 665.130 require to be kept confidential (NRS 353A).

SCOPE OF WORK

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. These include evaluating:

- The reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- The means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- The effectiveness and efficiency with which resources are employed.
- Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Governance processes.
- The effectiveness of the organization's risk management processes.
- Specific operations at the request of the Committee or management, as appropriate.

RESPONSIBILITY

The Division is responsible for reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Committee.

Management of an agency is kept apprised of the nature of information, so that an opportunity exists for inclusion of alternative data or differing points of view. However, the Administrator and the staff of the Division of Internal Audits shall not disclose the content of any audit before the final report is submitted to the Executive Branch Audit Committee, except in the case of alleged illegal acts which must be reported immediately upon discovery.

After each audit is completed, the Administrator shall submit a copy of the preliminary findings and recommendations of the audit to the head of the audited agency. Within 10 working days after receipt of the preliminary findings and recommendations, the head of the agency shall submit to the Administrator a written statement of acceptance, explanation or rebuttal concerning the findings. The Administrator shall include the statement of the head of the agency in the final report submitted to the Executive Branch Audit Committee and the head of the audited agency.

Within five months after the final report is submitted and annually thereafter, the audited agency must notify the Administrator of the Division of any corrective action taken. The Division will evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the corrective action is considered unsatisfactory, the Division will hold further discussions in an attempt to achieve acceptable disposition. The Administrator must inform the Committee and the audited agency of the effect of any corrective actions taken

AUDIT PLAN

At least annually, the Administrator will submit to the Committee an audit plan for review and approval. The audit plan will consist of agencies to be audited as well as the scope of the audit. The audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology. Audits requested by the Committee or agency management have priority over those selected based on the risk assessment. Any significant deviation from the approved audit plan must be approved by the Committee.

ACCOUNTABILITY

The Director of the Department of Administration (Director) appoints the Administrator of the Division with concurrence by the Governor. The Administrator reports administratively to the Director and functionally to the Committee. The Division functions independently of all other divisions and departments within the State. Independence and accessibility to information sources are essential elements, which permit audit work to be performed freely and objectively.

The Committee oversees the Division as follows:

- In consultation with the Director, the Administrator of the Division is to prepare an annual plan for auditing executive branch agencies based on periodic risk assessments. The annual plan and any revisions to the plan are submitted to the Committee for approval.
- Final audit reports, which include the agency's written response to audit findings, are submitted to the Committee. The agency's written response includes a timetable for anticipated completion of corrective actions.
- Within six months after the final report is submitted and annually thereafter, the Division will evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. The Administrator must inform the Committee and the audited agency of the effect of any corrective action taken.
- The Committee approves the policies and procedures for the operation of the Division.
- The Division's Charter and any revisions are submitted to the Committee for approval.
- The Administrator of the Division prepares an annual report summarizing the Division's activities, and submits the report to the Committee for its approval.

INDEPENDENCE AND OBJECTIVITY

To provide for independence, the personnel within the Division report to the Division's Administrator, who administratively reports to the Director and functionally to the Committee.

The internal audit activity is free from interference by any element in the State (with the exception of the Committee), including matters of audit selection, scope, procedures, frequency, or timing to permit maintenance of a necessary independent and objective mental attitude. Audit report content is free from any influence outside the Division.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they must not implement internal controls, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

PROFESSIONALISM

NRS 353A.045 requires the Division to perform audits of programs and activities of executive branch agencies in accordance with the standards of the International Institute of Internal Auditors.

Internal audit procedures are performed in a manner consistent with the *International Standards for the Professional Practice of Internal Auditing* which defines "*Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*"

The internal audit activity is required to adhere to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Division's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

The Internal Audit section has the responsibility to perform audit work with due professional care as defined by the Institute of Internal Auditors. The following divisional requirements are indicative of the level of professionalism expected of its members:

- Appropriate education, certification, and experience.

- Professional image and neat work habits.
- Personal integrity.
- Attitude of service, professional courtesy, and consideration of the feelings and needs of other people.
- Relevant, timely, and quality work.

CODE OF ETHICS

The internal audit activity will adhere to The Institute of Internal Auditors' mandatory guidance including the Code of Ethics. In addition, all internal auditors shall report on instances where it appears auditors violated the Code of Ethics.

ASSURANCE FROM OUTSIDE PARTIES

Per NRS 228.110 - Legal adviser on matters arising in the Executive Department; limitation on employment of private attorney.

- The Attorney General and the duly appointed deputies of the Attorney General shall be the legal advisers on all state matters arising in the Executive Department of the State Government.
- No officer, commissioner or appointee of the Executive Department of the Government of the State of Nevada shall employ any attorney at law or counselor at law to represent the State of Nevada within the State, or to be compensated by state funds directly or indirectly, as an attorney acting within the State for the State of Nevada or any agency in the Executive Department thereof unless the Attorney General and the deputies of the Attorney General are disqualified to act in such matter or unless an act of the Legislature specifically authorizes the employment of attorneys or counselors at law.
- All claims for legal services rendered in violation of this section shall be void.

Per statute, it is the policy of the Division to go through the Department of Administration's designated Deputy Attorney General for all legal advice on all State matters.

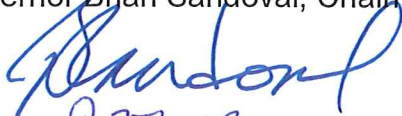
Steve Weinberger, Administrator, Division of Internal Audits

A handwritten signature in blue ink, appearing to read "Steve Weinberger".

Jeff Mohlenkamp, Director, Department of Administration

A handwritten signature in blue ink, appearing to read "Jeff Mohlenkamp".

Governor Brian Sandoval, Chairman, The Executive Branch Audit Committee

A handwritten signature in blue ink, appearing to read "Brian Sandoval".

Dated 9-27-13